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ORGANIZATION AND DEVELOPMENT OF CHINA'S BANKING SYSTEM

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[Summary: This report gives information on China's state bank deposits, the organization of the banking system, and the currency control program initiated in 1951. By the end of October 1951, there were over 5,300 branches of the People's Bank of China and less than 200 private banks. Elimination of cash transactions between public agencies and other measures resulted in a 36-fold increase in state-bank deposits within a 2-year period ending in late 1951.]

Financial Reform Measures

The following financial measures were carried out during the financial and economic unification program of 1950 and 1951: the weeding out of a large number of inefficient privately operated banking institutions; the reform of bank management; the suppression of the black market; the organization and channeling of private floating capital; the timely issuance of marketing and sales loans; the provision of domestic drafts and bills of exchange needed for commodity exchange; the control of cash and currency; and the effective utilization of idle capital.

As a result of these measures, the state has acquired a large amount of production and construction capital, has reduced the issuance of currency, and has stabilized financial and commodity values.

State Bank Deposits

During 1950, state bank deposits increased 18 times and during 1951, two times. Aside from direct loans in support of industrial and agricultural production, the amount of capital for use in state trade increased more than 100 percent during this period.

Organization of China's Banking System

The People's Banks comprise the most important segment of our banking system, numbering over 5,300 branches by the end of October 1951. With the exceptions of Sinkiang, Kwangsi, and other frontier provinces, the program of establishing a bank in each hsien has been nearly completed. Small branches have been set up in factories, schools, government organs, mass organizations, and on main streets in the cities, and in trade centers and special productions areas in the countryside.

In addition, there are four special banks under the direction of the People's Bank: the Bank of China, responsible for controlling foreign exchange; the Communications Bank, responsible for basic construction investment and its supervision; the Agricultural Cooperatives Bank; and the People's Insurance Company. At the end of October 1951, there were 562 branches of these banks in China.

The second category in the banking system is made up of public-private jointly operated banks. According to late 1951 statistics of 8 major cities, there were 129 banks of this type, comprising 70 percent of the nation's privately operated banking institutions and handling over 80 percent of the total business of the nation's private banking enterprises.

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The remaining three categories are privately operated banks which are capitalist in nature, credit cooperatives, and people's credit organizations (still active in areas where land reform has not been completed.)

Currency Control Program

In early 1951, a number of measures were put into effect by the People's Bank in order to achieve over-all control of China's currency. By the end of the year, the program had achieved the following:

First, operational relationships with over 90 percent of all state-operated enterprises and agencies have been established. As a result of the substitution of the system of settlement by account transfers, the use of cash in transactions between public agencies has virtually disappeared. In this way, a large amount of idle capital dispersed among these state enterprises and agencies has been channeled into state trade, financial and production enterprises.

Second, the system of planned currency receipts and expenditures has already been widely established in state enterprises and organs. Although the quality of planning in individual units is still quite low, it is gradually improving. Some areas have carried out the system of supervising unit budgeting work and this has been effective in strengthening budgeting operations on the lower levels.

Third, the use of transfers and other clearing methods has been greatly expanded in transactions between public agencies. In this way, the currency control system has been centralized and regularized and has been instrumental in accelerating capital turnover and in promoting economic calculation.

Fourth, the methods of controlling the movement of capital from public to private hands and of supervising contracts, together with the channeling of a great proportion of cash into the state banks, have been very effective in controlling currency circulation on the free market and in guaranteeing the fulfillment of plans by our public enterprises.

Fifth, the concentration of a part of commercial credit has been achieved through such means as taking in receipts and making payments, compensating for old debts, and creating special deposit accounts. By such means, various units have been able to cut down on the amount of commercial credit extended.

Finally, payments out of basic construction special accounts have already been initiated.

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